

## Message Text

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ACTION COME-00

INFO OCT-01 ARA-06 ISO-00 EB-07 EUR-12 CIEP-01 OMB-01

CIAE-00 INR-07 NSAE-00 SP-02 L-03 TRSE-00 XMB-02

OPIC-03 AID-05 IGA-01 /051 W  
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R 282149Z OCT 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 690

C O N F I D E N T I A L CARACAS 11192

E.O. 11652: GDS

TAGS: BEXP, VE

SUBJECT: SIDOR STEEL EXPANSION PROGRAM

REF: A. CARACAS 9760 B. CARACAS 9545 C. STATE 242052

1. SUMMARY. OCTOBER 23, EMBASSY'S DCM, ECONOMIC COUNSELLOR AND COMMERCIAL ATTACHE MET WITH DR. LUIS JOSE HERNANDEZ, PRESIDENT OF SIDOR TO RAISE ISSUES PRESENTED REFTEL C AND RECEIVE GENERAL ORIENTATION ON EXPANSION PROGRAM. IN CORDIAL TERMS HERNANDEZ REVIEWED CLOSE RELATIONSHIP SIDOR HAS HAD WITH HOST OF AMERICAN FIRMS SINCE ITS INCEPTION. HERNANDEZ SAID MONTHS OF THOROUGH STUDY BY BOTH SIDOR AND U.S. ENGINEERING FIRMS HIRED AS ADVISORS AND OVERSEERS FOR PROJECT LED TO REJECTION OF UEC-BLISS OFFERS PRIMARILY ON TECHNICAL GROUNDS. END SUMMARY.

2. DURING HOUR AND A HALF TALK WITH HERNANDEZ, EMBASSY OFFICERS WERE GIVEN DETAILED RATIONALE FOR SIDOR'S CHOICES IN MAKING AWARDS IN BIDDING COMPETITION FOR EXPANSION PROGRAM. WITH REGARD TO PARAGRAPH 2, REFTEL C, HERNANDEZ POINTED OUT THAT UEC-BLISS PROPOSAL WAS SIMPLY NOT RESPONSIVE TO SIDOR BIDDING SPECIFICATIONS. WHILE SIDOR WELL AWARE OF ADVANTAGES OF UEC-BLISS PROPOSAL, MONTHS OF STUDY AND EXCHANGES WITH BIDDERS RESULTED IN CONCLUSION THAT, "THE PROPOSAL DOES NOT FIT SIDOR'S PLANS AND IT WOULD NOT  
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BE CONVENIENT FOR US TO ACCEPT IT AT THIS TIME." HERNANDEZ

CITED "GREATER WILLINGNESS OF GERMAN FIRMS TO TAKE RISKS IN FIXED PRICE BIDDING" AS ADDITIONAL REASON FOR LARGE DIFFERENCE IN MAGNITUDE OF TENDERS. HE NOTED THAT U.S. COMPANIES HAD NOT CALCULATED ON AS CLOSE A MARGIN AS GERMAN FIRMS AND SPECIFICALLY MENTIONED STEEL COSTS PORTION OF PROJECT AS CONSERVATIVE AREA IN U.S. FIRMS BIDS.

3. WITH REGARD TO PARAGRAPH 4, REFTTEL C, ONE COULD ACCUSE UEC-BLISS OF EMPLOYING SAME TACTIC AS GERMANS HAVE IN PAST: SELLING GREATER THAN NEEDED CAPACITY BASED ON PRESUMED FUTURE NEEDS OF CUSTOMER.

4. SIDOR PRESIDENT MENTIONED THAT SINCE ITS INCEPTION SIDOR HAS RELIED ON ENGINEERING SERVICES PROVIDED BY AMERICAN FIRMS AND CITED MOST RECENT HIRING OF AMERICAN FIRM, RUST ENGINEERING CO., TO PROVIDE TECHNICAL AND TRAINING SERVICES FOR INSTALLATION AND OPERATION OF NEW FACILITIES. RUST EVENTUALLY EXPECTS TO HAVE APPROXIMATELY TWO HUNDRED AMERICAN EMPLOYEES AT SIDOR INSTALLATION.

5. GIVEN ABOVE INSIGHT, IT WOULD BE DIFFICULT TO ACCUSE SIDOR OF DISCRIMINATION. WHEN LARGE PRICE DIFFERENCES BETWEEN BIDS OF UEC AND DEMAG WERE QUESTIONED BY EMBASSY OFFICERS, HERNANDEZ INSISTED THAT BIDS WERE AWARDED MORE ON TECHNOLOGICAL DIFFERENCES THAN ON PRICE DIFFERENCES, BUT NOTED THAT DIFFERENCES OF UP TO 80 PERCENT HAD BEEN FOUND BETWEEN NON-AMERICAN BIDS. "UEC WAS NOT ONLY FIRM WHOSE BIDS SEEMED TO US TO BE INFLATED."

6. WITH REGARD TO DIRECT REDUCTION PLANTS, HERNANDEZ SAID PLAN IS STILL TO CONSTRUCT 9 ADDITIONAL PLANTS AND THAT DECISION AS TO CONTRACT AWARD WOULD BE MADE IN NEXT THIRTY DAYS. SIDOR WOULD PREFER MORE TIME TO STUDY TWO PILOT PLANTS NOW IN EXISTENCE, BUT THIS WOULD DELAY THEIR OVERALL PLAN; THEIR DECISION MUST BE MADE NOW. HE GAVE NO HINT AS TO WHICH PROCESS WOULD BE USED.

7. WHEN QUESTIONED REGARDING FURTHER SIDOR AND GOV STEEL EXPANSION PLANS AND SPECIFICALLY THE POSSIBILITY FOR U.S. PARTICIPATION IN SECOND STEEL PLANT BEING SUGGESTED FOR CONFIDENTIAL

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ZULIA PROVINCE TO TAKE ADVANTAGE OF COAL DEPOSITS THERE, HERNANDEZ SAID HE ANTICIPATED MANY OPPORTUNITIES FOR U.S. SUPPLIERS.

8. HERNANDEZ CONFIRMED PREVIOUS REPORTS THAT SIDOR WOULD PURCHASE UP TO ONE MILLION TONS OF IRON PELLETS FROM PERU IN INTERIM PERIOD WHEN SIDOR EXPANDING OWN CAPABILITIES.

9. G.H.H. STERKRADE AND DEMAG A.G. HAVE WON THE CONTRACT FOR ONE FURNACE AND THE CONTINUOUS SLAB MILL. SIDOR IS NO LONGER LISTING UEC-BLISS AMONG THE CONTENDERS FOR THE SECOND FURNACE AND CONTINUOUS CASTING LINE. IN THE WIRE AND ROD MILLS, NO AMERICAN FIRM WOULD SUBMIT A BID, BOTH WENT TO GERMAN FIRMS.

10. COMMENT - HERNANDEZ'S ARGUMENTS CARRIED SOME WEIGHT, EXPECIALLY IN VIEW OF HIS ASSERTION THAT TWO U.S. ENGINEERING FIRMS AIDED SIDOR IN MAKING CONTRACT AWARDS AND WERE IN AGREEMENT WITH AWARD DECISIONS. ONE OF THE FIRMS, RAMSEY-MILLER OF NEW YORK, HAS BEEN SIDOR CONSULTANT SINCE 1955. WITH REGARD TO HIS PERSONAL SENTIMENTS, HERNANDEZ MADE A POINT OF TELLING EMBOFFS OF HIS BACKGROUND WHICH INCLUDES INTER ALIA A DEGREE FROM THE UNIVERSITY OF MICHIGAN AND ONE AND A HALF YEARS WITH UNITED STATES STEEL CO. AS A TRAINEE. AMERICAN FIRMS SHOULD REMAIN ALERT AS WILL EMBASSY TO FURTHER EXPANSION PLANS IN VENEZUELAN STEEL INDUSTRY AS THESE ARE DEVELOPED. END COMMENT.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 OCT 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CARACA11192  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750375-0345  
**From:** CARACAS  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1975/newtext/t19751015/aaaaandd.tel  
**Line Count:** 135  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION COME  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 CARACAS 9760, 75 CARACAS 9545, 75 STATE 242052  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 12 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <12 SEP 2003 by RowellE0>; APPROVED <20 OCT 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SIDOR STEEL EXPANSION PROGRAM  
**TAGS:** BEXP, VE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006